Financial Statements of

NOVA SCOTIA JOBS FUND

Year ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Minister of Economic and Rural Development and Tourism, Province of Nova Scotia

We have audited the accompanying financial statements of Nova Scotia Jobs Fund which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net financial assets, continuity of fund under the Nova Scotia Jobs Fund Act and continuity of fund under the Venture Corporations Act for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Jobs Fund as at March 31, 2014, and its results of operations, changes in net financial assets and continuity of funds for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants
June 23, 2014
Halifax, Canada

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NOVA SCOTIA JOBS FUND

Statement of Financial Position
(in thousands of dollars)

March 31, 2014, with comparative information for 2013

		2014		2013
Financial Assets				
Investments and development incentives:				
Loans (note 2)	$	333,265	$	256,011
Development incentives		52,717		39,729
Loans - Venture Corporations Act (note 3)		809		809
Royalty rights (note 4)		1,324		1,400
Shares (note 5)		41,450		42,680
		429,565		340,629
Provisions for concessionary assistance (note 6)		(33,627)		(29,993)
Provisions for development incentives		(52,717)		(39,728)
Allowance for doubtful accounts		(64,134)		(45,864)
		(150,478)		(115,585)
		279,087		225,044
Assistance authorized but unadvanced:				
Loans		295,912		342,007
Development incentives		37,474		29,296
		333,386		371,303
Due from Consolidated Fund of the Province of Nova Scotia:				
Guarantees (note 7)		76,300		64,550
Provisions for payment under guarantees		(5,906)		(6,275)
		70,394		58,275
Uncommitted balance of Fund, due from Consolidated Fund of the Province of Nova Scotia		63,148		71,509
Net financial assets, being accumulated surplus	$	746,015	$	726,131
Accumulated Surplus - Committed and Uncommitted				
Accumulated surplus is comprised of:				
Authorized, net of write offs:				
Nova Scotia Jobs Fund Act	$	897,991	$	843,584
Venture Corporations Act		4,408		4,408
		902,399		847,992
Provision for concessionary assistance, development incentives and possible losses on assistance (note 8)		(156,384)		(121,861)
Contingencies (note 9)				
Subsequent event (note 12)				
	$	746,015	$	726,131

See accompanying notes to financial statements.

On behalf of the Fund:

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NOVA SCOTIA JOBS FUND

Statement of Operations
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Revenues:		
Interest	$ 7,722	$ 7,916
Guarantee fees	708	704
Dividends	-	66
	8,430	8,686
Expenditures:		
Loans written off and development incentives earned	3,792	17,402
Interest	118	-
	3,910	17,402
Operating surplus (deficiency) for the period	$ 4,520	$ (8,716)

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Statement of Changes in Net Financial Assets
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

		2014		2013
Change in net financial assets:				
Increase in uncommitted balance of Fund	$	(66,561)	$	(118,269)
Increase in authorized amounts (OIC 2013-34, OIC 2013-325, OIC 2013-131, OIC 2013-342)		58,200		106,500
Cancellation of loans		(24,161)		(16,769)
Cancellation of guarantees		(4,850)		(3,150)
Principal repayments reinvested in the Fund		(27,242)		(38,575)
Authorizations during the year		120,890		175,299
Loans written off and development incentives earned		(3,792)		(17,402)
Change in provisions		(34,524)		(52,065)
Capitalized interest		179		444
Share repayments reinvested in the Fund		(1,230)		-
Guarantee payments		2,975		1,020
Increase in net financial assets		19,884		37,033
Net financial assets, beginning of period		726,131		689,098
Net financial assets, end of period	$	746,015	$	726,131

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Statement of Continuity of Fund Under the Nova Scotia Jobs Fund Act
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

		2014		2013
Fund balance, beginning of period	$	843,584	$	754,486
Increase in authorized amount per OIC 2012-264, OIC2012-375, OIC 2013-34		58,200		106,500
Operating surplus (deficiency) for the period		4,520		(8,716)
Interest expense		118		-
Revenue recorded in Consolidated Fund		(8,430)		(8,686)
Net expenditures		(3,910)		(17,402)
Other activities within the Fund:				
Expiration of guarantees		4,850		3,150
Cancellation of loans		24,161		16,769
Decrease in uncommitted balance of Fund		66,561		118,269
Principal repayments reinvested in the Fund		27,240		38,575
Share repayments reinvested in the Fund		1,230		-
		124,042		176,763
Authorizations during the period		(120,890)		(175,299)
Capitalized interest		(178)		(444)
Guarantee payments		(2,975)		(1,020)
		(124,043)		(176,763)
Fund balance, end of period	$	897,991	$	843,584

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Statement of Continuity of Fund Under the Venture Corporations Act
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

		2014		2013
Fund balance, beginning of period	$	4,408	$	4,408
Deduct: Accounts written off		-		-
Fund balance, end of period	$	4,408	$	4,408
Comprising:				
Loans advanced	$	809	$	809
Uncommitted balance		3,599		3,599
	$	4,408	$	4,408

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2014

The Nova Scotia Jobs Fund Act (the "Act") was proclaimed in force by Order in Council 2011-440 and came into effect on December 21, 2011. It provided, in sub-section 3(1) that the former Industrial Expansion Fund was continued as a special account in the office of the Deputy Minister of Finance as the Nova Scotia Jobs Fund (the "Fund"). Effectively, all assets of the Industrial Expansion Fund became part of the Nova Scotia Jobs Fund and ceased to exist as a separate fund. The Fund has been used for the purposes set out in section 4 of the Act, and which included providing investment for the purpose of economic development, including without limitation for the purposes of economic growth, attracting business or foreign direct investment, promoting international trade and commerce and sustaining or increasing employment. All investments from the Fund needed approval of the Governor in Council as reflected in an Order in Council. The Fund's account and management activities are performed by staff of the Department of Economic and Rural Development and Tourism (the "Province"), while the accounting function is managed, in part, by Nova Scotia Business Incorporated ("NSBI").
On May 1, 2014, a new economic funding tool was enacted, see note 12, subsequent events.

1. Significant accounting policies:

These financial statements are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Canadian Institute of Chartered Accountants. These financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the Fund. The more significant polices are described below:

(a) Basis of accounting:

The Fund follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Loans receivable:

Loans receivable are recorded at amortized cost less allowances. An allowance is recorded when management considers it necessary to reduce the loan to its estimated recoverable amount.

(c) Royalty rights:

Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

1. Significant accounting policies (continued):

(d) Shares:

Equity investments with limited market information available are initially recorded at cost, which approximates fair value, and are reviewed annually for possible impairment allowances. This allowance or the difference between valuation and cost amount, reflects the risk associated with equity investments.

(e) Provision for concessionary assistance:

The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

(f) Financial instruments:

Financial instruments are recorded at cost, which approximates fair value, on initial recognition and are subsequently recorded at cost less allowances for impairment.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized loss is adjusted through the statements of remeasurement gains and losses.

The Fund has no measurements at fair value as at March 31, 2014.

(g) Allowance for doubtful accounts:

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

(h) Guarantees:

Guarantees, including utilized and unutilized portions, are recorded at cost.

1. Significant accounting policies (continued):

(i) Revenues and administrative expenses:

Chapter 222 of the Revised Statutes of Nova Scotia contains the legislation relating to the Industrial Development Act. Clause 8, Administrative Expenses, states "The administration expenses of the Minister and of the Board shall be administration expenses of the Department of Economic and Rural Development and Tourism." Accordingly, administrative expenses of the Fund are included in the accounts of the Department of Economic and Rural Development and Tourism and are not reflected in the financial statements of the Fund.

Interest revenue and guarantee fees earned by the Fund are recorded directly in the accounts of the Consolidated Fund of the Province of Nova Scotia.

(j) Government transfers:

Government transfers received and paid relate to establish and assist in developing or expanding industries in the Province.

Government transfers are recognized as revenue in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(k) Statement of cash flows:

A statement of cash flows is not provided since the Fund does not maintain a cash account and disclosures in the statement of financial position, statement of operations, statement of net financial assets, and statement of continuity of the funds adequately represent the changes in Fund balances.

(l) Statement of remeasurement gain and loss:

The Fund has not presented a statement of remeasurement gain and loss as the Fund has no financial instruments that give rise to remeasurement gains or losses.

1. Significant accounting policies (continued):

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates included in the financial statements relate to the valuation of the financial assets and guarantees. Actual results could differ from these estimates.

(n) Budget:

The Fund has not presented a budget in its statement of operations as the Fund does not prepare an assessment of future operations.

2. Loans:

	2014	2013
Performing loans	$ 251,536	$ 194,381
Performing loans with specific reserves	72,772	54,184
Impaired loans	8,957	7,446
	$ 333,265	$ 256,011

Interest charged on these loans ranges from nil% to 9% (2013 - nil to 9%). Repayment terms are negotiated on loans and would normally not exceed 14 years (2013 - 13 years). The level of security on loans is also negotiated between the Fund and the debtor. Security can range from an unsecured position to a fully secured position.

Performing loans with specific reserves are loans where payments are being made on time. However, there exists a specific reserve against the loan receivable.

Impaired loans are those loans where payments are in arrears by 3 months or more.

3. Venture Corporations Act:

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the former Industrial Development Act, and payments made pursuant to the Act shall be made out of the Fund.

No loans were advanced nor received on these loans during the year.

		2014		2013
Loans made to venture corporations	$	809	$	809
Less: allowance for doubtful accounts		809		809
	$	-	$	-

4. Royalty rights:

		2014		2013
Loans made to venture corporations	$	1,324	$	1,400
Less: allowance for doubtful accounts		1,324		1,400
	$	-	$	-

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of the companies.

5. Shares:

	2014	2013
Preferred shares	$ 17,741	$ 18,741
Common shares	23,709	23,939
	$ 41,450	$ 42,680

Shares are recorded at cost. Any provision for the decline of fair market value below the cost of shares has been included in the allowance for doubtful accounts.

6. Provision for concessionary assistance:

The provision for concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the provision for concessionary assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the provision for concessionary assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans and shares is as follows:

			2014	2013
	Assistance outstanding	Provision for concessionary assistance	Net book value	Net book value
Loans	$ 144,995	$ 29,327	$ 115,668	$ 57,175
Shares	9,741	4,300	5,441	5,441
	$ 154,736	$ 33,627	$ 121,109	$ 62,616

7. Guarantees:

		2014		2013
Guarantees - in effect and utilized	$	55,499	$	45,749
Guarantees - in effect but unutilized		20,801		18,801
	$	76,300	$	64,550

8. Provision for concessionary assistance, development incentives and possible losses on assistance:

The following is a continuity of the provision:

		2014		2013
Opening balance	$	121,861	$	69,796
Add current period provision:				
Doubtful accounts		18,859		17,307
Development incentives		19,456		52,160
		160,176		139,263
Less amounts written off		3,792		17,402
	$	156,384	$	121,861

9. Contingencies:

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements. When amounts are determinable they are recorded during the year and reflected in the statements of operations.

10. Financial instruments:

(a) Fair value:

Fair value measurements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

There are no financial instruments recorded at fair value.

(b) Associated risks:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Fund's authorized net fund balance - committed and uncommitted is primarily exposed to credit, interest rate, market and liquidity risk.

(i) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. To mitigate this risk, the Fund regularly monitors entities to which financial assistance has been provided. In addition to its regular monitoring procedures, at period-end, management performed an analysis on the accounts in order to assess the Fund's total exposure to credit and other risks. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees.

As at period-end, the Fund had a significant concentration in its investment portfolio with respect to its five largest investees. At period-end, the concentration of investments advanced to the Fund's five largest investees was 65% (2013 - 62%) of the carrying value of the investment portfolio.

10. Financial instruments (continued):

At period-end, the Fund had a significant concentration in its investment portfolio with respect to the forestry sector. At period-end, the concentration of investments advanced to companies participating in timber-related industries was 48% (2013 - 53%).

(ii) Interest rate risk:

Interest rate risk is the risk that the market value of the Fund's investments and debt will fluctuate due to changes in market interest rates. It is management's opinion that the Fund is not exposed to significant interest rate risk arising from financial instruments.

(iii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through income generated from the loans receivable and guarantee fees, principal repayments received on the loans receivable and other funding received from the Province of Nova Scotia. In the normal course of business the Fund enters into contracts that give rise to commitments for future payments which may also impact the Fund's liquidity.

(iv) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments, its issuer or factors affecting all similar financial instruments traded in the market. At year end, there exists an exposure to market risk with respect to the Fund's shares that are not publicly traded (note 5).

11. Transactions with the Province:

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

In 2012, Nova Scotia Jobs Fund authorized assistance of $19,396 to Bowater Mersey Paper Company (now ReNova Scotia Bioenergy Inc.). $15,520 has been repaid during 2014, leaving a remaining balance of $3,876 at year-end. In 2013, Nova Scotia Jobs Fund purchased $1,268 of preferred shares of ReNova Scotia Bioenergy Inc. The Department of Nova Scotia Economic and Rural Development and Tourism share a key member of senior management.

The Province of Nova Scotia pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Fund with no charge to the Fund.

The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

12. Subsequent event:

On May 1, 2014, the Minister of Economic and Rural Development and Tourism received royal assent on the Invest Nova Scotia Act. The Act establishes the authority of the Invest Nova Scotia Board and the Invest Nova Scotia Fund. The Invest Nova Scotia Board is an independent board established to oversee a new economic development funding tool. The bill amended the Nova Scotia Jobs Fund Act, which closes the Fund to new investments or increases to existing authority on present investments.

Invest Nova Scotia is currently being operationalized. The Fund will continue to operate and oversee all funds currently extended.